

# Novar ED&S Limited

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## Report and accounts 2005

Company registration number 189291

WEDNESDAY



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## **Directors' report**

*for the year ended 31 December 2005*

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The directors of Novar ED&S Limited present their report and audited financial statements of the company for the year ended 31 December 2005

### **Principal activity**

The principal activity during the year was the supply of electric and electronic wiring accessories, circuit protection devices and cable management

### **Review of business and future developments**

The profit and loss account for the year is set out on page 4. The results for the year were impacted by exceptional charges of £28,984,000 as a result of the alignment of the company's accounting estimates with those of the Honeywell group (£22,971,000) and the scrapping of certain tangible fixed assets following the acquisition of the Novar group by Honeywell International Inc (£6,013,000).

The directors expect the current underlying performance to continue for the foreseeable future.

### **Results and dividends**

The company's loss for the year was £15,157,000 (2004 profit of £107,000 restated). The directors do not recommend the payment of a dividend (2004 £nil) and accordingly the loss of the year has been transferred to reserves.

### **Going concern**

Honeywell International Inc has confirmed its intention to provide operational and financial support to Novar ED&S Limited and to fund the operations of the company for the foreseeable future and in any event for a period of at least twelve months following the date of signing these financial statements for the financial year ended 31 December 2005. For this reason the directors continue to prepare the accounts on a going concern basis.

### **Creditor payment policy**

It is the company's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. Trade creditors at the year end represented 63 days' purchases (2004 42 days).

### **Financial risk management**

The company's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk and liquidity risk.

#### *Foreign exchange risk*

The company considers it has limited currency risk since it primarily transacts in sterling.

#### *Credit risk*

The company's credit risk is primarily attributable to its trade receivables. The company's client base principally comprises of large OEM organisations. As a result, the company has good visibility as to the standing and reputation of its clients.

#### *Liquidity risk*

The company ensures availability of funding through an appropriate amount of committed facilities, on a group wide basis, that are designed to ensure the company has sufficient available funds for its operations.

### **Research and development**

The company carries out research and development into potential new products and processes that may benefit the company.

### **Directors and their interests**

The directors of the company who held office during the year were

M A Southgate  
C J White  
S P Box  
D A Chorlton  
A R Stearns

M A Hill  
N T Drakesmith (resigned 30 June 2005)  
D Cohen (appointed 1 August 2005)  
E Malcherek (appointed 1 August 2005)  
S Molzahn (appointed 1 August 2005)

## **Directors' report (continued)**

*for the year ended 31 December 2005*

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### **Directors and their interests (continued)**

The directors have no interest in the shares or debentures in the company or any other company in the group that are required to be disclosed under schedule 7A of the Companies Act 1985. The company's ultimate parent undertaking, Honeywell International Inc, is incorporated outside the United Kingdom. As permitted by a statutory instrument, the register of directors' interests maintained in accordance with Section 325 of the Companies Act 1985 does not include the interests of directors in the shares of the ultimate parent undertaking.

The directors have no interest in the shares or debentures of the company or any other company in the UK group. The company's ultimate parent undertaking is incorporated outside the United Kingdom. As permitted by a statutory instrument, the register of directors' interests maintained in accordance with Section 325 of the Companies Act 1985 does not include the interests of directors in the shares of the ultimate parent undertaking.

### **Directors' responsibilities in respect of the Annual Report and the financial statements**

Company law requires the directors to prepare financial statements for each year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Charitable donations**

The company made charitable donations of £15,614 during the year (2004 £2,609). The company made no political donations (2004 £nil) during the year.

### **Employment of disabled persons**

It is the company's policy that disabled persons shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

### **Employee involvement**

The company keeps employees fully informed of company affairs and encourages their active participation. Briefing meetings are held for each division to give information on company matters and provide an opportunity for discussion. A company newspaper is distributed regularly to all employees.

### **Auditors**

Following the resignation of Deloitte & Touche LLP as auditors, PricewaterhouseCoopers LLP were appointed as auditors in 2005. PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the board



Director

23 April 2007

## Independent auditors' report

*to the members of Novar ED&S Limited*

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We have audited the financial statements of Novar ED&S Ltd Limited for the year ended 31 December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom generally accepted accounting practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2005 and of its loss for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

Uxbridge

27 April 2007

## Profit and loss account

for the year ended 31 December 2005

	Notes	2005 £000	2004 £000 <i>As restated</i>
<b>Turnover</b>	3	142,806	146,374
Change in stocks of finished goods and work in progress		(597)	99
Own work capitalised		94	117
Raw materials and consumables		(67,076)	(69,137)
Staff costs		(31,466)	(32,364)
Redundancy costs		(580)	(1,251)
Depreciation and amortisation		(4,673)	(6,828)
Non-exceptional other external charges		(19,688)	(31,121)
Exceptional other external charges	4	(28,984)	-
Total other external charges		(48,672)	(31,121)
<b>Operating (loss)/profit</b>	4	(10,164)	5,889
Loss on disposal of fixed assets		(46)	(312)
Income from participating interests		106	107
Interest receivable and similar charges	8	30	36
Interest payable and similar charges	9	(3,113)	(3,033)
Other finance expense	7	(1,100)	(1,400)
<b>(Loss)/profit on ordinary activities before taxation</b>		(14,287)	1,287
Tax credit on loss on ordinary activities	10	(870)	(1,180)
<b>(Loss)/profit for the financial year</b>		(15,157)	107

## Note of historical cost profits and losses

for the year ended 31 December 2005

	2005 £000	2004 £000 <i>As restated</i>
(Loss)/profit on ordinary activities before taxation	(14,287)	1,287
Difference in the depreciation charge for the year calculated on the historical cost and revalued amounts	(85)	(85)
Historical cost profit/(loss) on ordinary activities before taxation	(14,372)	1,202
Taxation	(870)	(1,180)
Historical cost profit/(loss) for the year retained after taxation	(15,242)	22

## Statement of total recognised gains and losses

for the year ended 31 December 2005

	2005 £000	2004 £000 <i>As restated</i>
<b>(Loss)/profit for the financial year</b>	(15,157)	107
Actuarial (loss)/gain	7, 22 (600)	(2,300)
Movement on deferred tax relating to pension deficit	22 180	690
Total recognised gains and losses relating to the year	(15,577)	(1,503)
Prior year adjustment-FRS 17	22 (38,410)	
<b>Total gains and losses recognised since last annual report</b>	(53,987)	

The notes on pages 6 to 15 form part of these financial statements

## Balance sheet

as at 31 December 2005

	Notes	2005 £000	2004 £000 <i>As restated</i>
<b>Fixed assets</b>			
Intangible assets	11	12,462	13,214
Tangible assets	12	21,150	30,374
Investments	13	20,903	20,903
		<u>54,515</u>	<u>64,491</u>
<b>Current assets</b>			
Stock	14	11,986	16,707
Debtors	15	34,143	51,794
Cash at bank and in hand		8,504	9,022
		<u>54,633</u>	<u>77,523</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(34,038)</u>	<u>(54,143)</u>
Net current assets		<u>20,595</u>	<u>23,380</u>
<b>Total assets less current liabilities</b>		75,110	87,871
Creditors amounts falling due after more than one year	17	(44,719)	(42,430)
Provisions for liabilities and charges	19	(2,163)	(26)
<b>Net assets excluding pension liability</b>		<u>28,228</u>	<u>45,415</u>
Pension liability	7	(47,040)	(48,650)
<b>Net assets</b>		<u>(18,812)</u>	<u>(3,235)</u>
<b>Capital and reserves</b>			
Called up share capital	21	1,101	1,101
Share premium account	22	19,800	19,800
Profit and loss account	22	(40,427)	(24,850)
Revaluation reserve	22	714	714
<b>Total shareholders' funds</b>	23	<u>(18,812)</u>	<u>(3,235)</u>

The financial statements on pages 4 to 15 were approved by the board of directors on 23 April 2007 and were signed on its behalf by

  
Director

## Notes to the accounts

for the year ended 31 December 2005

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### 1. Accounting policies

The financial statements are prepared on a going concern basis, under historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the UK. The accounting policies which have been applied consistently throughout the year, except for changes arising on the adoption of new accounting policies are set out below.

The company has adopted FRS 17 "Retirement benefits", FRS 21 "Events after the balance sheet date", FRS 25 "Financial Instruments: disclosure and presentation" and FRS 28 "Corresponding amounts" in these financial statements. The adoption of these standards represents a change in accounting policy and the prior year comparatives have been restated accordingly.

The effect of the change in accounting policy to adopt FRS 17 was to decrease staff costs by £4,568,000 (2004 £4,152,000), to increase other finance expense by £1,100,000 (2004 £1,400,000) and to decrease the total recognised gains and losses for the year by £600,000 (2004 £2,300,000). In addition, the net pension liability of £47,040,000 (2004 £48,560,000) was recognised in the balance sheet, resulting in a prior year adjustment and corresponding decrease in net assets of £38,410,000 net of the reversal of the pension accrual made under the previous accounting standard, SSAP24 "Accounting for pension costs".

The effect of the change in accounting policy to adopt the presentation requirements of FRS 25 was to reclassify preference shares of £40,441,000 (2004 £40,441,000) from equity to liabilities, having the effect of reducing net assets by the same amount, and the related dividends of £3,033,000 (2004 £3,033,000) are recognised as an interest cost.

The adoption of FRS 21 and FRS 28 had no impact on the current year figures or comparatives.

#### *Going concern*

Honeywell International Inc has confirmed its intention to provide operational and financial support to Novar ED&S Limited and to fund the operations of the company for the foreseeable future and in any event for a period of at least twelve months following the date of signing these financial statements for the financial year ended 31 December 2005. For this reason the directors continue to prepare the accounts on a going concern basis.

#### *Goodwill*

Goodwill arises where the fair value of consideration differs from the fair value of net assets acquired. The goodwill arising is capitalised and depreciated over its anticipated useful life of 20 years. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may be impaired.

#### *Investments*

The company's interest in subsidiary undertakings and other investments is shown at cost less provision for permanent impairment. The value of investments is reviewed annually by the directors and provision made where it is considered that there has been a permanent impairment of value.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost with the exception of freehold properties, which are stated at valuation. These assets are depreciated using the straight line method and subject to an impairment review.

No depreciation is provided on freehold land. Long leasehold buildings are depreciated over 50 years. Short leasehold properties are depreciated over the life of the lease.

For all other assets, depreciation is provided to write off the cost or valuation of those assets over their expected useful lives at the following rates per annum:

Freehold buildings	2 - 3%
Fixtures, fittings, plant and machinery	7 - 33%
Fixtures and fittings	7 - 14%
Motor vehicles	20-33%

Following the implementation of FRS 15 "Tangible fixed assets" the company has adopted a policy of not revaluing fixed assets. The directors have taken advantage of the transitional arrangements of FRS 15 to freeze the revaluation at 1 January 2000 and not perform any further revaluations.

#### *Leases*

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the lease.



## Notes to the accounts (continued)

for the year ended 31 December 2005

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### 1. Accounting policies (continued)

#### *Stock and work in progress*

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. The cost of raw materials, consumables and goods for resale represents purchase cost on a first-in, first-out basis. The cost of work in progress and finished goods is the cost of direct materials and labour plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

#### *Taxation*

Taxation is calculated on profits chargeable to UK corporation tax at the current rate applicable.

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### *Research and development*

All costs associated with research, engineering, product design and product development are written off in the year of expenditure.

#### *Turnover and revenue recognition*

Turnover comprises sales to customers and service revenues net of value added tax. Revenue from sales of products is recognised on delivery to the customer. Revenue on service work is recognised on the completion of the repair or overhaul.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains or losses resulting from the year's trading are reflected in the operating result for the year.

#### *Pensions*

As described in note 7, the company operates both defined benefit and defined contribution schemes for the benefit of its employees. The defined benefit schemes provide benefits based on the final pensionable salary. The assets of the schemes are held separately in independently administered funds. In accordance with FRS 17, the full service cost of pension provision relating to the year, together with the cost of any benefits relating to past service is charged to the profit and loss account. A charge equal to the expected increase in the present value of the scheme liabilities because the benefits are closer to settlement and a credit equivalent to the cost of the market value of the scheme assets at the start of the year, are included in the profit and loss account under 'other finance expense'.

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or a liability on the balance sheet net of deferred tax. Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience or assumption changes.

Defined contribution schemes are externally funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds and contributions to such schemes are charged to the profit and loss account as they become payable.

## Notes to the accounts (continued)

for the year ended 31 December 2005

### 1. Accounting policies (continued)

#### Group accounts

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as parent of a group. The company is exempt under section 228a of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of Honeywell International Inc, a company registered in the USA and whose accounts the directors consider to be drawn up in a manner equivalent to the 7th Directive.

#### Related party transactions

In accordance with the exemptions available under FRS 8 "related party disclosures", transactions with other undertakings within the Honeywell group or with undertakings which the group has invested in are not required to be disclosed in these financial statements on the grounds that this company is a wholly owned subsidiary of Honeywell International Inc whose accounts are publicly available.

### 2. Cash flow statement

The company is a wholly owned subsidiary company of a group headed by Honeywell International Inc, and is included in the consolidated accounts of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within FRS 1 "cash flow statements" (revised 1996) from preparing a cash flow statement.

### 3. Segmental analysis

Turnover, stated net of value added tax, and profit before taxation are attributable to the principal activity of the company. The business is carried on in the UK and the turnover and profit derive mainly from that origin.

#### Turnover by geographical market

	2005 £000	2004 £000
United Kingdom	111,700	115,431
Rest of Europe	17,875	17,006
North and South America	374	686
Rest of world	12,857	13,251
	<u>142,806</u>	<u>146,374</u>

### 4. Operating profit/loss

Operating profit/loss is stated after charging/(crediting)

Auditors' remuneration	- audit services	54	53
	- non audit services	-	15
Depreciation of owned fixed assets		3,920	6,044
Loss/(profit) on sale of fixed assets		46	-
Amortisation on intangible fixed assets		752	752
Operating lease rentals	- plant and machinery	831	772
	- other	1,371	1,543
Research and development		4,062	3,602
Foreign currency (gains)/losses		<u>(693)</u>	<u>6</u>

Exceptional other external charges comprise changes made to estimation methods following the acquisition of the Novar group by Honeywell International Inc in order to align accounting estimates with those used by the Honeywell group and the scrapping of certain tangible fixed assets.

### 5. Directors' remuneration

Aggregate emoluments	<u>639</u>	<u>727</u>
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All directors (2004: all) were members of defined benefit pension schemes. During the year two directors exercised share options (2004: 1).

#### Highest paid director

Emoluments of the highest paid director were

Aggregate emoluments	<u>151</u>	<u>163</u>
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At the end of the year the highest paid directors' accrued pension was £69,000 (2004: £80,000).

## Notes to the accounts (continued)

for the year ended 31 December 2005

6. Employees	2005	2004
Staff costs	<u>£000</u>	<u>£000</u>
		<i>As restated</i>
Wages and salaries	32,319	27,035
Social security costs	1,354	2,091
Other pension costs	1,793	3,238
	<u>35,466</u>	<u>32,364</u>

Average monthly number of employees during the year	<u>Number</u>	<u>Number</u>
Administration, selling and distribution	434	337
Manufacturing	486	691
	<u>920</u>	<u>1,028</u>

### 7. Pension commitments

The company provides pension arrangements to its employees through two defined benefit schemes, the MK Pension Fund ("MKPF") and the MK Executive Pension Fund ("MKEPF") (together, "the schemes"), for which the related costs are assessed in accordance with the advice of professionally qualified independent actuaries. The service cost of the schemes will increase in future periods as the members of the scheme approach retirement.

A full actuarial valuation was carried out as at 31 March 2003 by Hewitt Bacon & Woodrow Limited, a qualified independent actuary. The valuation has been updated by the actuaries based on the most recent actuarial valuations to assess the liabilities of the schemes at 31 December 2005.

The schemes have been updated by the actuaries based on the most recent actuarial valuations to assess the liabilities of the schemes at 31 December 2005.

Actuarial assumptions having the most significant effect on the results of the valuation	31 December <u>2005</u>	31 December <u>2004</u>	31 December <u>2003</u>
Inflation rate	2.9%	2.9%	2.8%
Rate of increase in salaries	3.9%	3.9%	3.8%
Rate of increase for pensions	2.8%	2.7%	2.7%
Discount rate for plan liabilities	4.8%	5.3%	5.4%
Expected return on assets by class of asset			
Equities	8.0%	7.5%	7.8%
Government bonds	4.3%	4.5%	4.8%
Cash	4.5%	4.8%	4.3%
Fair value of assets by class of asset	<u>£m</u>	<u>£m</u>	<u>£m</u>
Equities	101.6	86.9	79.4
Government bonds	20.6	17.9	14.2
Other	2.0	1.9	1.4
Total market value of assets	<u>124.2</u>	<u>106.6</u>	<u>95.0</u>
Present value of plan liabilities	<u>(191.4)</u>	<u>(176.1)</u>	<u>(164.6)</u>
(Deficit) /surplus in schemes	<u>(67.2)</u>	<u>(69.5)</u>	<u>(69.6)</u>
Related deferred tax asset	<u>20.2</u>	<u>20.9</u>	<u>20.9</u>
Net pension deficit	<u>(47.0)</u>	<u>(48.7)</u>	<u>(48.7)</u>

The latest formal valuation of the MKPF and the MKEPF schemes was at 31 March 2003, and gave rise to deficits of £65.8m and £6.7m respectively. The shortfall in the MKPF scheme is being addressed by way of company contributions of £9.86m in January of each year from 2007 to 2012 inclusive, and £2.45m in January of each year from 2013 to 2016 inclusive. The shortfall in the MKEPF scheme is being addressed by way of company contributions amounts to £0.99m in January of each year from 2007 to 2012 inclusive, and £0.25m in January of each year from 2013 to 2016 inclusive.

## Notes to the accounts (continued)

for the year ended 31 December 2005

### 7. Pension commitments (continued)

	2005	2004	
	£m	£m	
Current service cost	2 8	2 7	
<i>Amounts (charged)/credited to other finance expense</i>			
Expected return on pension scheme assets	7 4	7 4	
Interest on pension scheme liabilities	(8 5)	(8 8)	
Net charge to other finance expense	(1 1)	(1 4)	
<i>Amounts recognised within the statement of total recognised gains and losses (STRGL)</i>			
Actual return less expected return on pension scheme assets	10 2	2 1	
Experience gains and losses arising on scheme liabilities	21 3	-	
Changes in assumptions underlying the value of the scheme liabilities	(32 1)	(4 4)	
Actuarial loss recognised in STRGL	(0 6)	(2 3)	
<i>History of experience gains and losses</i>			
	2005	2004	2003
<i>Difference between the expected and actual return on scheme assets</i>	£m	£m	£m
Amount	10 2	2 1	9 0
as % of plan assets at the year end	8 2%	2 0%	9 5%
<i>Experience gains and losses on scheme liabilities</i>			
Amount	21 3	-	0 1
as % of the plan's liabilities at the year end	(11 1%)	-	(0 1%)
<i>Total amount recognised in the STRGL</i>			
Amount	(0 6)	(2 3)	(8 2)
as % of the plan's liabilities at the year end	0 3%	1 3%	5 0%
<i>Analysis of the movement in deficit in the scheme during the year</i>			
	2005	2004	
	£m	£m	
Deficit in scheme at beginning of year	(69 5)	(69 6)	
Movement in year			
Current service cost	(2 8)	(2 7)	
Contributions	6 8	6 5	
Other finance expense	(1 1)	(1 4)	
Actuarial loss	(0 6)	(2 3)	
Deficit in scheme at end of year	(67 2)	(69 5)	
<b>8 Interest receivable and similar income</b>			
	£000	£000	
Interest on bank deposits	30	36	
<b>9 Interest payable and similar charges</b>			
			<i>As restated</i>
Interest on bank overdraft	80	-	
Preference share dividend 7 5p (2004 7 5p) per £1 share	3,033	3,033	
	3,113	3,033	

## Notes to the accounts (continued)

for the year ended 31 December 2005

10. Tax on loss on ordinary activities	2005 £000	2004 £000 <i>As restated</i>
<i>Current tax</i>		
UK corporation tax at 30% (2004 30%)	-	-
Overseas taxation adjustments in respect of prior periods	-	460
Total current tax	-	460
<i>Deferred tax</i>		
Origination and reversal of timing differences (ACA and other)	870	720
Tax on loss on ordinary activities	870	1,180

The effective rate of tax is lower (2004 higher) than the UK corporation tax rate of 30% (2004 30%) and the differences are explained below

(Loss)/profit on ordinary activities before tax	(14,287)	1,287
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 30%)	(4,286)	386

### Effects of

Expenses not deductible for tax purposes and other permanent differences	1,084	76
Capital allowances in excess of depreciation	(862)	(107)
Other short term timing differences	-	17
Group relief surrendered for nil consideration	4,064	(93)
Tax loss carried forward	-	-
Over provision in respect of prior years	-	181
Current tax charge for the year	-	460

A deferred tax asset of £2,150,000 (2004 £5,700,000) has not been recognised in the financial statements due to uncertainty over the availability of future taxable profits against which it may be utilised (note 20)

## 11. Intangible fixed assets

### Cost

At 1 January 2005 and 31 December 2005	Goodwill £000 14,850
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### Amortisation

At 1 January 2005	1,636
Charge for the year	752
At 31 December 2005	2,388

### Net book value

At 31 December 2005	12,462
At 31 December 2004	13,214

## 12. Tangible fixed assets

	Freehold land and buildings £000	Long leasehold buildings £000	Short leasehold buildings £000	Fixtures and fittings £000	Motor vehicles, plant and machinery £000	Total £000
<i>Cost</i>						
At 1 January 2005	8,775	6,071	275	2,554	87,666	105,341
Additions	3,291	66	-	144	1,557	5,058
Disposals	(534)	(4,811)	(275)	(2,344)	(80,881)	(88,845)
At 31 December 2005	11,532	1,326	-	354	8,342	21,554

### Depreciation

At 1 January 2005	663	1,594	275	1,636	70,799	74,967
Charge for the year	288	201	-	67	3,364	3,920
Disposals	(917)	(1,762)	(275)	(1,694)	(73,835)	(78,483)
At 31 December 2005	34	33	-	9	328	404

### Net book value

At 31 December 2005	11,498	1,293	-	345	8,014	21,150
At 31 December 2004	8,112	4,477	-	918	16,867	30,374

## Notes to the accounts (continued)

for the year ended 31 December 2005

### 12. Tangible fixed assets (continued)

Freehold land and buildings were valued as at 31 December 1997 by Healey & Baker, International Surveyors & Valuers, on the basis of open market values for existing use. The transitional rules of FRS 15 have been followed and the valuation of previously revalued freehold land and buildings have accordingly not been updated.

If the freehold land and buildings had not been revalued they would have been included on a historical cost basis at the following amounts

	2005	2004
	<u>£000</u>	<u>£000</u>
Net book amount	9,063	9,436
Depreciation in year	373	373

Freehold land and buildings includes freehold land not subject to depreciation amounting to £3,714,000 (2004 £3,714,000)

### 13. Fixed asset investments

Cost and net book value

At 1 January 2005 and 31 December 2005

	2005	2004
	<u>£000</u>	<u>£000</u>
	20,903	20,903

#### Investments in subsidiary undertakings

Name	Country of incorporation	Shares held	Proportion of issued share capital held
MK Electric (India) Ltd	India	869,100 ordinary shares of Rs 10 each	87%
Friedland Limited	England and Wales	200,000 ordinary shares of £1 each	100%
Ackermann Limited	England and Wales	50,000 ordinary shares of £1 each	100%

The principal activity of MK Electric (India) Limited is the manufacture and sale of wiring devices in the Indian market. Friedland Limited and Ackermann Limited are dormant.

#### Investments in participating interests

Name	Country of incorporation	Shares held	Proportion of issued share capital held
Hawa-MK Electrical Accessories Limited	Saudi Arabia	2,440 Ordinary shares of SR 1,000 each	40%

The principal activity of Hawa-MK Electrical Accessories Limited is the supply of electric wiring devices.

### 14. Stock

	2005	2004
	<u>£000</u>	<u>£000</u>
Raw materials and consumables	3,026	2,449
Work in progress	2,378	1,756
Finished goods and goods for resale	6,582	12,502
	<u>11,986</u>	<u>16,707</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

### 15 Debtors

Amounts falling due within one year

Trade debtors	23,588	25,660
Amounts owed by group undertakings	9,304	23,011
Other debtors	258	473
Corporation tax recoverable	544	242
Prepayments and accrued income	449	2,108
	<u>34,143</u>	<u>51,494</u>

Amounts falling due after more than one year

Other debtors	-	300
	<u>34,143</u>	<u>51,794</u>

# Notes to the accounts (continued)

for the year ended 31 December 2005

## 16. Creditors: amounts falling due within one year

Trade creditors	6,667	5,749
Amounts owed to group undertakings	8,800	35,346
Accruals	8,880	6,518
Other creditors	5,325	3,452
Other tax and social security	1,333	2,954
Accrued preference share dividends	3,033	124
	<u>34,038</u>	<u>54,143</u>

## 17 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000 <i>As restated</i>
Amounts owed to group undertakings	4,278	1,989
7 5% cumulative redeemable preference shares of £1 each	40,441	40,441
	<u>44,719</u>	<u>42,430</u>

## 18 Loans and other borrowings

7 5% cumulative redeemable preference shares of £1 each	40,441	40,441
<i>Maturity of financial liabilities</i>		
In more than five years	<u>40,441</u>	<u>40,441</u>
<i>Preference share capital</i>		
<i>Authorised</i>		
45,000,000 redeemable cumulative preference shares of £1 each	45,000	45,000
<i>Called up, allotted and fully paid</i>		
40,440,536 redeemable cumulative preference shares of £1 each	<u>40,441</u>	<u>40,441</u>

The holders of the redeemable cumulative preference shares have the right to be paid a fixed cumulative preference dividend at the rate of 7 5% per annum payable annually in arrears

The company shall, subject to the requirements of the Companies Act, be entitled to redeem all or part of the preference shares in issue at any time after 1 January 2005 and the amount payable shall be £1 per share, together with any arrears of dividends

## 19. Provisions for liabilities and charges

	Retirement benefits £000	Restructuring provision £000	Warranty provision £000	Total £000
At 1 January 2005 - as previously reported	10,240	26	-	10,266
Prior year adjustment - FRS17	(10,240)	-	-	(10,240)
At 1 January 2005 - as restated	-	26	-	26
Charged to profit and loss account	-	-	(2,163)	(2,163)
Utilised in the year	-	(26)	-	(26)
At 31 December 2005	-	-	(2,163)	(2,163)

The restructuring provision related to costs arising from manufacturing and administrating reorganisation projects The provision was fully utilised in the period

The warranty provision relates to expected costs to be incurred under product warranty obligations The amount of the provision is based on historical experience of warranty claims from customers It is expected to be utilised over a period between 2 and 10 years depending on the product group

## Notes to the accounts (continued)

for the year ended 31 December 2005

### 20. Deferred tax asset

#### Unrecognised deferred tax

The following amounts of deferred tax have not been recognised in the financial statements due to uncertainty over the availability of future taxable profits against which they may be utilised

	2005	2004
	<u>£000</u>	<u>£000</u>
Capital allowances	(954)	2,600
Other short term timing differences	3,104	3,100
	<u>2,150</u>	<u>5,700</u>

### 21. Share capital

	<u>£000</u>	<i>As restated</i> <u>£000</u>
Authorised		
1,500,000 Ordinary shares of £1 each	<u>1,500</u>	<u>1,500</u>
Called up, allotted and fully paid		
1,100,605 Ordinary shares of £1 each	<u>1,101</u>	<u>1,101</u>

### 22 Reserves

	Revaluation reserve	Share premium	Profit & loss account
	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January 2005 - as previously reported	714	19,800	13,560
Prior year adjustment - FRS 17	-	-	(38,410)
At 1 January 2005 - as restated	<u>714</u>	<u>19,800</u>	<u>(24,850)</u>
Loss for the financial year	-	-	(15,157)
Actuarial loss on pension scheme	-	-	(600)
Movement on deferred tax relating to pension scheme	-	-	180
At 31 December 2005	<u>714</u>	<u>19,800</u>	<u>(40,427)</u>



## Notes to the accounts (continued)

for the year ended 31 December 2005

### 23. Reconciliation of movements in equity shareholders' funds

	2005	2004
	£000	£000
Opening equity shareholders' funds - as previously reported	75,616	77,541
Prior year adjustment - FRS 17	(38,410)	(60,447)
Prior year adjustment - FRS 21	(40,441)	(40,441)
Opening equity shareholders' funds - as restated	(3,235)	(23,347)
Loss for the financial year	(15,157)	107
Actuarial loss on pension scheme (note 7)	(600)	(2,300)
Movement on deferred tax relating to pension scheme	180	690
Closing equity shareholders' funds	(18,812)	(24,850)

### 24. Operating lease commitments

	Land and buildings		Other	
	2005	2004	2005	2004
	£000	£000	£000	£000
<i>Annual commitments under non-cancellable operating leases</i>				
Leases which expire				
- Within one year	49	-	3	269
- Within two to five years	-	65	650	564
- After five years	533	511	-	6
	582	576	653	839

### 25. Contingent liabilities

Under an unlimited multilateral guarantee, the company, in common with certain other Honeywell group companies, has jointly and severally guaranteed the obligations falling due under one of the Honeywell group's net overdraft facilities

### 26. Ultimate parent and controlling party

The immediate parent company is Novar Electrical Holdings Limited. The ultimate parent and controlling party is Honeywell International Inc, a company incorporated in the USA, which is the smallest and largest group to consolidate these accounts. Copies of these accounts are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at [www.honeywell.com](http://www.honeywell.com)